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July 1, 2004

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF THE SECRETARY

Marlene H. Dortch, Esq. Secretary Federal Communications Commission 445 - 12th Street, SW, Room 8B201 Washington, DC 20554

Re:

Midcontinent Communications, Inc.

System Audit Report CC Docket No. 96-128

Dear Ms. Dortch:

On behalf of our client Midcontinent Communications, Inc. ("Midcontinent") and in accordance with the requirements of Section 64.1320(b) of the Commission's rules, I am submitting to you herewith Midcontinent's system audit report. This report consists of two elements, as required by Section 64.1320(d) of the rules. The first part is Midcontinent's representation of compliance and the second is an independent auditor's opinion concerning the representation. In addition to the information required by Section 64.1320(d), the representation contains the information required by Section 64.1320(e).

Please inform me if any questions should arise in connection with this submission.

Respectfully submitted,

J.G. Harrington

Counsel to Midcontinent Communications, Inc.

**Enclosures** 

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

#### INDEPENDENT AUDITORS' REPORT

Financial Management of Midcontinent:

We have audited the Nortel switch and the accompanying reports of Midcontinent Communications with relation to the accuracy of the Payphone Service Payment Program. Switch management and the integrity of the reports are the responsibility of the Company's management. Our responsibility is to express an opinion on these reconciliation procedures based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the switch and related reports are free of material misstatement, and whether information relevant to the reconciliation process and the Completing Carrier's Representation of Compliance is available, accurate, and complete. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the reports in question. An audit also includes assessing the reconciliation procedures used and significant estimates made by management, as well as evaluating the overall accuracy of the reconciliation presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the reports referred to above present fairly, in all material respects, the responsibility of Midcontinent and subsidiaries in compliance with FCC Order Docket Number 96-128, section 64.1310 (a) (1) and their responsibility to record, maintain, and present accurate information with regard to Payphone Compensation as of March 5, 2004 and in conformity with auditing principles generally accepted in the United States of America.

/s/ Mass-Tel Communications, Inc.

San Francisco, California

March 5, 2004

# Midcontinent Communications, Inc. Representation of Compliance with FCC Order Docket Number 96-128

#### Note:

In the reconciliation procedures, Midcontinent is heavily reliant on the manual development and entering of PSP-billed phone numbers in order to trace payphone calls. Thus, a true "reconciliation" is not generated, whereby the system gives a list of payphone calls and they are reconciled to invoices from service providers detailing those calls. Additionally, if there are calls tagged as PSP calls and not appearing in the telephone numbers, current reconciliation procedures are unable to determine whether these calls belong to any particular PSP, as a result of minimal reporting and invoice information obtained from the PSP.

#### (1) Procedures to accurately track calls to completion

Midcontinent Communications is a switch-based reseller serving the North and South Dakota regions and Minnesota of the US. Switch services run out of Sioux Falls, SD with a Nortel DMS Switch. The switch downloads information on a 24 hour basis to the AS400, which downloads CDRs into the KBS and ICOMs billing systems to pick up billing information and charge tables. Daily loads are stored and kept for three month periods at a time, then reconciled and archived.

For each CDR, the system generates fields to identify origination and completion information on the call. For our testing, the CDRs have been downloaded to daily U.max reports from the KBS system. Explanations of each field are available in the customer service guide.

The info digits, or the TPART field, at parameter 135, identifies the service originating the call. 27 and 70 are used; there is no 29 info digit. Correctional facilities have only the collect phone call option, at \$2.60 for a local call.

The Payphone Compensation field determines whether or not the call is eligible for payphone compensation. Re-origination calls, where the same customer hits the # key, or "pounds," to release his current call and make a new call without hanging up, are not distinctly identified, and thus are included for the purposes of payphone compensation.

In coordination with the auditor, Midcontinent reviewed the Nortel switch records to determine whether there are indicators to note whether the call is completed. Per discussions with switch personnel, if the call is recorded in the switch and has answer supervision, it is determined to be completed.

#### **Duration Testing**

All calls that originate from payphones and are delivered and registered as complete when answer supervision occurs. Calls continue to be processed until the caller terminates the call, thus, caller duration may be skewed by the PSP. Our testing tends to indicate that caller duration for completed and delivered calls is accurate, however, there are no minimum requirements for

duration on the call in place, thus any answered call originating from a PSP is documented for payphone usage.

## **Reorigination Exception Testing**

Per the FCC order, repeat calls made without hanging up and calls of less than 1 second in duration should not have PSP revenue or charges. Per review of the Payphone Summary report, we noted that the current reconciliation process does not take into account repeat callers, who may use a calling card and the redial feature without incurring an additional charge. For example, on the Qwest invoice, we noted several sets of calls where it appears the caller made consecutive calls, and there is no record indicator to determine whether or not the caller redialed under the same PIN or restarted the process, although timing indicates that re-origination was likely.

#### **Testing**

- 1) In coordination with the auditor, Midcontinent reviewed the U.max reports to determine whether re-origination and short duration calls are captured in the system.
- 2) In coordination with the auditor, Midcontinent reviewed the invoices determine whether there were any calls in our sample with re-origination or short duration calling.

## **Switch Record Completeness Testing**

In coordination with the auditor, Midcontinent reviewed samples of switch reports via the U.max files, to verify completeness of the switch records.

- 1) The company reviewed the CDR field layout parameters and the U.max file for the CDRs to identify appropriate info digit fields.
- 2) The company tested to determine that there are no calls on PSP invoices that do not appear on the U.max files. To complete this task, we reconciled the U.max files on several dates to the Payphone Report for 2003, sorted to the relevant quarter.
- 3) The company tested to determine that the U.max CDRs with 27 or 70 digits all appear on the payphone summary report.

#### Conclusion

Per our review the switch information appear to collect all necessary information required to verify the accuracy of the payphone reconciliation.

(2) The person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls

Midcontinent has well-defined procedures around the reconciliation process, and has a significant amount of support around the PSP compensation process. As of our report date of March 5, 2004, James Welch, programmer, is responsible for initiating reconciliation, gathering the data for the appropriate period, performing the reconciliation process and preparing the payable report for the accounts payable clerk.

### (3) Effective data monitoring procedures

Midcontinent Communications sells local switched and dedicated service to residential and commercial customers. Thus, the majority of the calls are not PSP calls, although there are 23 PSP providers. Each phone number that represents an originating payphone number is sent quarterly for entry into the reconciliation process. Quarterly lists are reviewed and any new numbers are entered in based on information received from the carrier.

(4) Adherence to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability

#### System Upgrades

Upgrades to the Nortel and AS400 system are tested to ensure that info digits and other key indicators are protected. Midcontinent is transitioning all customers to the ICOMs residential billing system from the KBS proprietary system, and it does not appear that this is creating discrepancies in the reporting. All CDRs and switch information is backed up on DAC servers.

(5) Creation of a compensable payphone call file by matching call detail records against payphone identifiers

PSP and PSP aggregators invoice their payphone surcharges quarterly, although MCI invoices on a monthly basis. Carrier invoices appear in three formats--CD ROM or disk billing, paper, or in a unified invoice from the APCC. For APCC PSPs, and the disk billers, a list of phone numbers (BTNs) is sent representing the phone numbers that may appear in the CDRs if they have registered any payphone calls. In most cases, the carrier or PSP representative lists all possible numbers, and leaves it to the reconciliation process to locate those phone numbers on the CDRs and verify that they are payphone calls.

Reconciliation of these CDRs to PSP invoices is manually triggered by James Welch, programmer, whereby the process worksheets for all numbers for each carrier are listed in a file and compared to the U.max CDRs. As records are matched, the Payphone Summary by Provider report is prepared automatically by the system. Payphone provider A/P is generated from that report.

The report, called the payphone call summary and processed from the KBS system, summarizes the number of calls on a quarterly basis, and payment is made based on those calls. Calls which are not claimed on the invoice from the carrier are left unreconciled until the next quarter.

For the ICOMs system, a report called the TOLLS(MO) is generated. This report sets the report to look for 3 or 6 in the TYPICAL column, and 1,7 or 8 in the IND 01 column, and then compares those BTNs with the BTN listing from the carriers.

(6) Procedures to incorporate call data into required reports

The SBR is able to provide reports on disk to all the PSP providers that identify the call detail relating to the BTNs, as they use these reports to determine PSP compensation to date.

(7) Implementation of procedures and controls needed to resolve payphone compensation disputes.

As a result of disputed amounts being the difference between calls verified and calls billed, we note that the appropriate testing involves determining the calls that are not verified in the system, and their ultimate resolution.

As only a few ICs actually bill by individual call detail, we noted that the majority of discrepancies are from calls that are identified as payphone origination, but the number is not recognized as belonging to a specific PSP, and thus cannot be paid out in a timely manner. Interviews with current and past personnel responsible for the PSP compensation procedures indicated that very few PSPs have actually disputed payments made from Midcontinent.

If disputes do arise, they can be handled by:

Kristi Putnam

605-357-5482

kristi putnam @mmi.net

#### Testing:

In cooperation with the auditor, Midcontinent reviewed prior reconciliations to determine that disputed amounts were properly credited from the account of the carrier and adjusted fairly by both parties. We noted that in general, calls are paid from the payphone provider collection system.

In cooperation with the auditor, Midcontinent reviewed the customer detail records for Midcontinent and tied payphone surcharges to the invoice.

In cooperation with the auditor, Midcontinent tested all CDRs with chargeable payphone compensation from the Midcontinent reports and compared that to the CDRs from the invoices.

In cooperation with the auditor, Midcontinent tested to ensure that all calls from the Midcontinent report were accounted for on the CDRs from the Nortel switch.

Midcontinent noted the reason for any discrepancies, and that BTNs for those calls were not included in the APCC, MCI or Qwest invoices, or past system records.

(8) Ability of the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.

The auditor's testing included all the referenced tests, and the following generic procedures.

- 1) The auditor reviewed the reconciliation process with the staff.
- 2) The auditor obtained the invoices from the carriers for the period between July and September, 2003, testing the quarterly amounts for the disk billers and the August invoice for MCI.

- 3) The auditor tied the invoices into the quarterly payphone payable report, and the PSP A/P summary.
- 4) The auditor tied the MCI monthly invoice to the screen shot from A/P, noting the amount was paid in full.
- (9) Existence of adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise noncompensable calls; and (iv) determine the identities of the payphone service providers to which the Carrier owes compensation.

Midcontinent has developed and uses adequate and effective business rules for implementing and paying payphone compensation, and for identifying payphone origination calls. Since this carrier does not readily identify reorigination or short duration calls, the carrier has more exposure from overpayment of PSP compensation than underpayment thereof. APCC is the only clearinghouse of any sort for PSP and ICs—the other PSP providers are Qwest and MCI, respectively. The quarterly invoices from these PSP and PSP aggregators provide BTN listings by provider only, which seems adequate to identify both providers and origination identifiers for calls requiring payphone compensation. The auditor does note that better information and call detail from the PSP providers will allow for an enhanced reconciliation process.

The specific mechanisms for meeting the requirements under this criterion are described in the responses to the following questions:

- (i) Identify calls originated from payphones: Question 1, initial discussion.
- (ii) Identify compensable payphone calls: Question 1, duration testing and reorgination exception testing, Question 5.
- (iii) Identify incomplete or otherwise noncompensable calls: Question 1, initial discussion, Reorigination Exception Testing.
- (iv) Determine the identities of the payphone service providers to which the Carrier owes compensation: Note, Question 5, Question 6, Question 7.

## Additional information required by Section 64.1320(d):

(1) The identity of any clearinghouses the Completing Carrier uses

Midcontinent does not use a clearinghouse per se. However, MCI does bill Midcontinent for payphone calls on their tollfree numbers, Midcontinent pays MCI and MCI, in turn, compensates the payphone owner.

Midcontinent also interacts with APCC Services, Inc. and Private Payphone Operators Network, which act as clearinghouses for payphone operators.

(2) The types of information that the Completing Carrier needs from the payphone service providers in order to compensate them

As indicated in the Note, Midcontinent is unable to determine whether certain calls belong to any particular PSP because it does not obtain all of the information necessary from all PSPs. Midcontinent requires the contact information, including name, address and phone number of the payphone owner, and the telephone number(s) associated with the owner's payphone(s). Midcontinent receives this information in various ways, shapes and forms including handwritten information on loose leaf paper, and it often is incomplete. If a standard format could be required of the payphone owners, it would cut the time and effort in preparing this immeasurably. Midcontinent tries to match all calls to payphone numbers, but there are times that calls simply do not match up, presumably because we have not been sent a payphone number that ties to our call records.

## Additional information required by Section 64.1320(e):

- (1) Name of the Completing Carrier:Midcontinent Communications, Inc.
- (2) Person responsible for handling payphone compensation:
   James Welch
   410 S. Phillips Avenue
   Sioux Falls, SD 57104
   605-357-5756
- (3) Person responsible for handling payphone compensation disputes:

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